

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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FM AMEMBASSY ROME

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AMEMBASSY BERN

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USMISSION EC BRUSSELS

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AMCONSUL MILAN

AMCONSUL NAPLES

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PASS TREASURY FOR WIDMAN, PASS FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. ITALY HAD SMALL SURPLUS IN OVERALL BALANCE
OF PAYMENTS IN FIRST HALF DECEMBER, REDUCING CUMULATIVE
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DEFICIT TO \$7400 MILLION. IN LATTER HALF OF MONTH,

LIRE STRENGTHENED IN EXCHANGE MARKETS. MAJOR EXTRA-ORDINARY OPERATION WAS SECOND IMF OIL FACILITY DRAWING. END SUMMARY.

2. PRELIMINARY MONETARY MOVEMENTS DATA SHOW \$60 MILLION SURPLUS IN BALANCE OF PAYMENTS IN FIRST HALF OF DECEMBER. ON DECEMBER 4, ITALY MADE SECOND IMF OIL TRANCHE DRAWING OF SDR 412.5 MILLION, OR ABOUT \$498 MILLION. THIS PERMITTED BUILD-UP OF OFFICIAL CONVERTIBLE CURRENCY HOLDINGS AND ALSO FINANCED FURTHER REDUCTION IN NET SHORT-TERM LIABILITIES OF COMMERCIAL BANKS DURING FIRST HALF OF MONTH.

3. FOR ENTIRE PERIOD JANUARY 1 TO DECEMBER 15, ITALY'S RECORDED BALANCE OF PAYMENTS DEFICIT WAS \$5280 MILLION, AND ADJUSTED DEFICIT (INCLUDING \$2120 MILLION IN NET EUROMARKET BORROWING) WAS \$7400 MILLION. DEFICIT WAS FINANCED (IN MILLIONS OF DOLLARS) MAINLY BY REDUCTION IN ITALY'S SDR HOLDINGS OF 192, DRAWINGS ON ITALY'S IMF POSITION IN FUND OF 359, EC CREDIT OF 1885, GERMAN GOLD LOAN OF 2,000, IMF STANDBY DRAWINGS OF 831, IMF OIL FACILITY DRAWINGS OF 810, NET EUROMARKET TERM LOANS OF 2120, AND OTHER MEDIUM-TERM OFFICIAL BORROWINGS OF 62. AT SAME TIME, CONVERTIBLE CURRENCY HOLDINGS INCREASED BY (MILLIONS OF DOLLARS) 960 AND SHORT-TERM OFFICIAL DEBTS WERE REDUCED BY 300. COMMERCIAL BANKS INCREASED THEIR NET FOREIGN DEBT BY 401.

4. LIRA HAS STRENGTHENED IN EXCHANGE MARKETS BOTH IN GENERAL AND AGAINST US DOLLAR. ON DECEMBER 30, OFFICIAL DOLLAR RATE WAS \$1.00 EQUALS 649.325 LIRE, AND BOI WEIGHTED AVERAGE DEVALUATION WAS 21.60 PERCENT. THE 90-DAY FORWARD LIRA RATE WAS 665.825. THE PARALLEL MARKET (BLACK MARKET) RATE IN MILAN HAS ALSO DROPPED IN RECENT WEEKS WITH A QUOTATION OF \$1.00 EQUALS 675 LIRE ON DECEMBER 30. THIS COMPARES WITH RATES OF ABOUT 700 LIRE ONLY A FEW WEEKS AGO. VOLPE

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